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Opening Statement Of

Dennis J. Kucinich

Chairman

Domestic Policy Subcommittee

Oversight and Government Reform Committee

March 11, 2009

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The Troubled Assets Relief Program has provided about \$200 Billion in capital injections to hundreds of banks. The money was provided with virtually no strings attached. Most of the banks didn't even bother to account separately for the federal monies. It is debatable whether the efforts of those that did amount to anything meaningful. Treasury does not even ask TARP recipients for a detailed accounting of their use of TARP funds.

Because some of the banks are multinational banks, the kinds of transactions they are doing include billions in loans and investments in other countries at precisely the time that a liquidity shortage has impaired credit markets in the U.S., and a recession deeper than anything seen since the Great Depression is impairing production and employment.

Nevertheless, several very large transactions conducted since these banks received billions in a taxpayer funded bailout include: an \$8 billion of financing arranged by Citigroup for public authorities in Dubai; a \$7 billion investment by Bank of America in the China Construction Bank Company; a \$1 billion investment by a J.P. Morgan Chase subsidiary in expanding operations in India.

Unfortunately, the legislation Congress passed creating the TARP required very little of the recipients to receive taxpayer funded subsidies. The Treasury regulations and contracts crafted to implement the TARP did not require much of anything other than someone sign for the money. It may be argued that transactions such as these are beneficial to the balance sheets of the banks that are making them. That they have some indirect benefit to the U.S. financial system as a whole. Really?

If the banking system is in serious enough trouble to require massive amounts of federal support, shouldn't that federal support be channeled to the domestic economy? Or are these examples of large investments and loans to foreign entities among the kind of transactions American taxpayers should be supporting with TARP monies when we face

significant credit problems here at home? How does a multi-billion financing deal to Dubai ease the liquidity crisis in the U.S.A.? What about other kinds of uses of funds: corporate spending on lavish parties, the continuation of contractual agreements to pay for naming rights on professional sports stadiums, corporate sporting event sponsorships? Is this what the taxpayers expect our government to do with TARP funds? Is this what Congress intended?

If it was the business judgment of the very same bankers in charge that governed their decisions before the financial crisis (and arguably helped cause the crisis), is it tolerable to continue to defer to that judgment and allow them to spend taxpayers money, with no explanation, little accountability, with no questions asked? Under the precedent set by former Secretary Paulson, the Paulson TARP program makes no demands on TARP recipients for detailed information about their spending. Even though the statute obligates Treasury to be able to prevent waste and abuse of TARP monies, Mr. Paulson's Treasury Department did not even bother to set standards for waste and abuse of TARP funds. "Trust them" is essentially what seems to pass for oversight of the Capital Purchase Plan. Treasury has no concrete idea of how TARP monies are being used. They don't ask questions of TARP recipients about their use of funds, and don't gather sufficiently detailed information from TARP recipients to know what to ask about.

The problem is not a lack of authority. Under the agreements between Treasury and TARP recipient financial institutions, Treasury has broad contractual authority to scour company books in search of, among other things, waste and abuse by TARP recipients. But in practice, Treasury is not doing so. The problem is with how Treasury has chosen to implement TARP. The serious shortcomings in the creation and implementation of the Emergency Economic Stabilization Act -- namely the absence of definitions of waste and abuse or explicit conditions for use of TARP funds -- resulted in the inescapable conclusion that Treasury's oversight will not find waste, fraud, or abuse because it isn't looking for it. To read Mr. Kashkari's testimony today, we find nothing to contradict that conclusion.

In fact, Mr. Kashkari was asked to testify on the steps Treasury has taken to detect and prevent the waste of TARP monies. Mr. Kashkari's testimony does not address that question. Rather, he describes Treasury's efforts to do something else -- to determine the impact of TARP monies on the banks lending activity. Treasury has submitted 90 pages of Monthly Intermediation Snapshots from the 20 largest TARP recipients. But what does that prove? Perhaps very little. There are significant shortcomings to Treasury's reliance on the Monthly Intermediation Snapshots. First, only the 20 largest TARP recipients report anything at all. Obviously, there can be little monitoring of the impact of TARP monies on the credit activities of the 297 TARP recipients which do not file Monthly Intermediation Snapshots. Second, the Snapshots do not provide details about any individual transaction, no matter how significant. Third, these Snapshots address the lending side of the recipients' business. They do not address any other investment or expenditure. And fourth, they address only new lending, and not the contraction of existing lending, in the form of foreclosures and elimination of credit lines. At best, the Snapshots might serve the purpose of monitoring at the most general level some impact

TARP funds may be having on certain new lending activities, but they don't reflect the NET impact of contracting credit activities on existing borrowers. And they tell us nothing about the use of TARP funds, which is the focus of this hearing.

Mr. Kashkari's silence on the subject of this hearing speaks volumes. The inescapable conclusion is that Treasury is not conducting oversight of TARP monies disbursed through the Capital Purchase Program to prevent the wasteful or abusive use of funds. Perks for company management were OK before the financial crisis and taxpayer bailout, and they are OK now using taxpayer money. Loans to foreign governmental authorities were OK before the crisis and bailout, and they are OK now using taxpayer money. Investments in foreign company operations, even if it results in more lay-offs in the U.S., were OK before, and are OK now using taxpayer money. In its current form, the Capital Purchase Program of TARP leaves recipient companies free to use federal funds as they would any other source of income before the crisis, and before taxpayers provided a bailout.

Treasury's development of the TARP program generally, and the Capital Purchase Program specifically, has introduced no new transparency or accountability that did not exist before taxpayers were given the bill for cleaning up the mess. It has perpetuated business as usual. It defers to the judgment of the same corporate management in many cases that led to the crisis we are embroiled in now.

TARP was developed under the previous Secretary of the Treasury. Nearly every observation that will be made today originates on his watch. But if the new administration is to avoid perpetuating the approach of the past, real change is going to be necessary. It should start with the collection of detailed information about how TARP recipients are using taxpayer funds, and the imposition of conditions and standards for how they may use the monies taxpayers have provided and may be called upon to provide in the future. It is my hope that this hearing today will help propel the new Department of Treasury to reform the intolerable deficiencies of the TARP program, thereby making recipients accountable to the public for their use of taxpayer funds.

Finally, we owe it to the American taxpayers to provide a complete, comprehensive accounting of all TARP funds that have already been allocated. And after such a thorough accounting is made available, then let the people decide if their hard earned tax dollars are being spent wisely, and in the best interest of the American economy and the best interests of the United States of America.